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EGYPTDomestic Politics

We see no immediate danger to Mubarak's continued rule unless there is an unexpected deterioration in domestic economic conditions. Although not particularly popular, Mubarak has slowly gained respect.

- The refurbishing of Egypt's nonaligned credentials and improved relations with other Arab states have been well-received by the Egyptian public.
- The legal opposition is poorly organized, lacks effective leadership, and has found no single issue to rally popular support. Also, radical elements on the left and the religious right have been contained by Egypt's security forces. [REDACTED]

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Mubarak, however, faces a difficult third year in office. Next year's parliamentary elections inevitably will focus public attention on his policies and the opposition will seek to exploit his vulnerabilities.

- Opposition groups will criticize Mubarak's political, economic, and strategic ties with the United States and his adherence to Camp David.
- They will try to underscore government mismanagement of the economy, and will complain about corruption and the lack of political freedoms.
- The recent legalization of the New Wafd Party (a revived version of the party that dominated Egyptian politics before the 1952 revolution) presents an additional political challenge to the government. [REDACTED]

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Mubarak's ruling party will not lose its parliamentary majority, but opposition rhetoric could erode support for the regime. Difficult economic conditions and foreign debt problems could become potent issues during the campaign. [REDACTED]

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### The Military

Egypt's military was long the largest and probably the most effective force in the Arab world, but its combat capabilities have eroded in recent years.

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- Since the Soviet arms cutoff in 1975, there has been a steady decline in Egypt's ability to defend itself or provide military assistance to other Arab states.

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[REDACTED]

[REDACTED]

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The US provided \$4.275 billion in Foreign Military Sales from 1979 through FY83--with \$3.65 billion in 30-year credits and \$625 million in grants.

- At least five years and considerably more equipment than is in current and pending US aid packages would be required to produce significant force improvements, however.
- The US military assistance program as it now stands will only help stem the decline in Egyptian weapons inventories, and will not enable Egypt to match Israel's quantitative and qualitative advances.
- Although Egyptians accept this fact, they are rankled by US preferential treatment toward Israel in the sale of advanced weaponry.

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Egypt is attempting to speed up military improvements and to reduce its dependence on the US for arms by purchasing weapons from Western European countries--France, Italy, and Spain--and Eastern Europe and China.

[REDACTED]

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### Economic Situation

The period of rapid economic growth and improved foreign payments situation of the past few years is coming to an end, and the troubled state of the economy constitutes the greatest domestic challenge to the government.

- Egypt is moving toward a foreign debt crisis. It has had problems making FMS interest payments to the US [redacted]

We believe that Egypt's financial situation will deteriorate further in the months ahead.

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- The need for economic reforms--such as reducing consumer subsidies, stopping wasteful investment projects, and boosting low domestic energy prices--to reduce the budget deficit and limit import growth conflicts with popular expectations of improved living standards. [redacted]

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Egypt hopes to avoid the adverse domestic political repercussions that would accompany economic austerity measures, although the deteriorating foreign payments position may make this impossible.

- The government fears a repeat of the January 1977 riots over increased bread prices and also wants to avoid the appearance of having economic and welfare policies dictated by the IMF and foreign donors.
- Talks with the IMF concerning a standby agreement were recently suspended after Egypt decided to postpone a rise in the price of bread. [redacted]

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Egypt is looking primarily to the US for help in avoiding an economic crisis. Specifically, it seeks:

- Relief in repayment of past military debt.
- More lenient terms for future military assistance, with a greater proportion of military aid as grants rather than loans. (FMS funding for FY84 is \$1.365 billion, including \$465 billion as grant aid.)
- Conversion of US economic aid to a cash transfer basis, such as that received by Israel.
- A repeat of last year's subsidized USDA wheat flour sale, which was in addition to the \$1 billion economic aid program. [redacted]

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Egypt has key economic links to the US that go beyond our large economic and military aid programs.

- US wheat sales provide one out of every three loaves of bread consumed in Egypt.
- One US firm--AMOCO--discovered and developed oil fields that provide 75 percent of Egyptian oil production--700,000 b/d in the year ending June 30. [redacted]

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Political and Strategic Relations with the US

Israel's invasion of Lebanon last year generated internal and regional pressure on Mubarak to put some distance between Cairo and the United States.

- Mubarak is aware of the importance to Egypt of US economic and military assistance, however, and took care to avoid a serious break in relations.

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- Cairo's stance toward the Reagan initiative is still positive, although Egypt believes that the US has not pushed the initiative strongly enough and that the US presidential election campaign will further delay efforts to reach a Middle East peace settlement.

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Relations with Israel and the Peace Process

The Israeli invasion of Lebanon also caused Cairo to freeze normalization of relations with Tel Aviv. A "cold peace" exists between the two countries. Cairo, however, remains committed to the Camp David peace treaty and to a negotiated settlement as the best chance for the Palestinians to achieve self-determination.

- Cairo's conditions for returning the Egyptian ambassador to Tel Aviv have hardened since earlier this year.
- Cairo also has said it will not resume the autonomy talks without broader Arab participation.

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Relations with the USSR and the Nonaligned Movement

Relations with Moscow have thawed somewhat since Sadat expelled the Soviet ambassador and other personnel in September 1981. Some technical cooperation and purchases of minor military spare parts have taken place, but Mubarak remains wary of the Soviets.

- Egypt is concerned over possible US reactions to improved ties with the USSR. Recently Foreign Minister Ali told US officials that Cairo had turned down a Soviet offer of low-cost helicopters.
- Mubarak recently stated that he will not resume ambassadorial relations with Moscow until the Soviets stop interfering in Egypt's domestic affairs.

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[REDACTED]

Cairo is trying to reassert its influence within the Nonaligned Movement (NAM), in part to weaken charges that Egypt is overly dependent on the US.

-- Cairo is attempting to boost moderate influence within the NAM and to deny a leadership role to such radical states as Cuba, which it sees as a Soviet surrogate. [REDACTED]

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